



NHCO Week in Review May 27, 2014

NHCO Weekly Market Update

How many of you remember the 60's television show: Lost in Space? A family and its intrepid robot were launched into space only to go off course, crash onto an unknown planet, and have to fend for themselves. The show was basically a futuristic adaptation of Daniel Defoe's classic: Robinson Crusoe. In the TV version, our family (ironically also the Robinsons - how clever TV writers are) had the help of a robot which could sense danger, and would then warn the youngest Robinson son, Will, by repeating the phrase "Danger, Will Robinson, Danger!" The family faced some kind of peril in every episode and so you could always count on the robot to issue its familiar warning.

The headlines this week made it seem as if the Robinsons' robot from the 60's had resurfaced on the pages of the Wall Street Journal and the NY Times with a danger warning for 2014. Imagine, if you can, that familiar sounding robot's voice as it issued warnings such as:

"Danger, Chasing Yield Investors Plow into Riskier Bonds."
 "Danger, Riskier Fannie Bonds are Devoured."
 "Danger, Fed Rethinks How to Set Rates."
 "Danger, Debt Rises in Deals without Warning."
 "Danger, Investors Show Little Fear."
 "Danger, Financial Crisis Over and Already Forgotten."

This week's headlines point to two issues that merit close observation: the current willingness to take risk, and the suggestion that the rules of the game might change.

Some of the headlines focused on investors' appetite for taking on greater and greater risk. The first headline above chronicled how investors are buying bonds rated CCC, and have pushed their yields down to 8.187%; the lowest levels ever seen. Be reminded that the rating agencies rate bonds as being CCC if "... the obligor is currently vulnerable, and is dependent on favorable business, financial, and economic conditions to meet their financial commitments." One new risky bond issued this week, by the mortgage giant Fannie Mae, had investor demand for 19 times the amount of securities being offered. Now if you think that this demand is coming from naive individual investors rethink that opinion. In fact this demand was coming from institutional buyers who were prepared to take greater risk in search of extra yield. In the current markets I have to wonder whether risk is being taken too lightly. Experience shows that market surprises often occur when everything seems to be going well.

This week's headlines also suggest that the rules of the game might be rewritten. The Fed is even looking at "new ways" to raise rates. New ways to raise rates? What could that possibly mean? Given that this Fed has employed new tactics to lower rates, it should be no surprise that they might raise rates in ways we have never seen before.

The message this week is simple. At times like this it is usually best to be cautious about the risks of the unknown, especially if the rules of the game might be changing. A popular TV show from the 80's, Hill Street Blues, had a catch phrase which was issued daily to police before they went into the street, "Be careful out there." That phrase seems to be appropriate guidance given the danger warnings which flashed in this week's headlines.

Carl Gambrell

| | 5/23/2014 | % Wk Chg | % Yr Chg |
|--------------------------|------------------|----------|----------|
| DJIA | 16,606.27 | 0.70% | 0.18% |
| S & P 500 | 1,900.53 | 1.21% | 2.82% |
| Nasdaq | 4,185.81 | 2.33% | 0.22% |
| EAFE | 1,938.56 | 0.27% | 1.20% |
| Emerging Mkts | 1,042.92 | 1.06% | 4.01% |
| Hang Seng | 22,965.86 | 1.11% | -1.46% |
| NIKKEI | 14,462.17 | 2.59% | -11.23% |
| FTSE | 6,815.75 | -0.58% | 0.99% |
| CRB Index | 308.26 | 0.76% | 10.03% |
| Dow Jones Utility | 534.02 | -0.70% | 8.86% |
| TIPS Index | 115.21 | 0.23% | 4.83% |
| VIX Index | 11.36 | -8.68% | -17.20% |
| OIL | 110.54 | 0.72% | -0.23% |
| Gold | 1,292.61 | -0.07% | 7.85% |
| Euro | 1.36 | -0.47% | -0.97% |
| Yen | 101.97 | 0.46% | -3.23% |
| Sterling | 1.68 | 0.13% | 1.81% |
| High Yield | 5.53% | 0.36% | -7.06% |
| Investment Grade | 3.46% | 0.58% | -10.59% |
| 2 Year Gov't | 0.34% | -5.56% | -10.53% |
| 5 Year Gov't | 1.52% | -1.94% | -12.64% |
| 10 Year Gov't | 2.53% | 0.40% | -16.50% |
| 30 year Gov't | 3.39% | 1.19% | -14.61% |
| 2 Year Muni | 0.33% | -5.71% | 0.00% |
| 5 Year Muni | 1.20% | -0.83% | 4.35% |
| 10 Year Muni | 2.25% | 0.45% | -18.77% |
| 30 Year Muni | 3.39% | -0.59% | -19.86% |
| 3m LIBOR | 0.23% | 4.55% | -8.00% |
| Fed Funds | 0.08% | 14.29% | 100.00% |
| Prime | 3.25% | 0.00% | 0.00% |
| Money Market | 0.48% | 0.00% | 20.00% |
| 12m CD | 0.69% | 0.00% | 2.99% |
| 30 Year Mortgage | 4.17% | 0.00% | -8.15% |
| 15 Year Mortgage | 3.21% | -0.31% | -9.58% |

Data: Bloomberg